

REGIONAL RISK WATCH

MIDDLE EAST (GCC COUNTRIES)

Issue 7/2008

18th December, 2008



Countries covered in this issue:

Bahrain
Kuwait
UAE
Yemen

Sectors covered in this issue:

Economy
Politics
Elections
Human Rights
Real-estate

Key findings in this issue:

- The Emir of Kuwait has accepted the government's resignation and asked the outgoing Prime Minister Sheikh Nasser to form a new government. Parliament will not convene for 2 months and it is seen that the delay of the Emir to accept the government's resignation was meant to avoid an imminent parliament session and hence an escalation of tensions between the government and parliament. It also reflects the Emir's desire to avoid clashes within the ruling family, whom Sheikh Nasser is a member of. It is also thought that the 2 months de facto suspension of parliament will be used to try to resolve difference between parliament and the government. However, many see this as merely delaying an inevitable clash.
- Leading Dubai government-owned developer Nakheel has axed several hundred jobs in what many see as an admission by the government of the seriousness of the crisis affecting the real-estate sector in the emirate. Nakheel has also cancelled some major projects. It is likely that the economy, of which the real-estate and construction sectors form the backbone, will be negatively affected in the coming months as a result of a slow-down.
- The UAE government has rejected UN calls to allow the setting up of trade unions to represent the overwhelmingly expatriate workforce. This is likely to put further pressure on the UAE government from both the international community and the expatriate workforce, who, as in the past, may resort to violence to settle disputes.
- The drop of the price of oil is forcing the Bahraini government to scrap some planned projects for 2009. Bahrain may resort to asking for assistance from Saudi Arabia to fill any budgetary gaps as a result of reduced revenue.
- The Yemeni president has threatened the opposition with "extreme measures" should they continue with the attempted disruption of the 2009 parliamentary elections. The escalation of rhetoric between the government and opposition will likely result in more civil unrest with demonstrations and clashes expected in the run up to the Spring 2009 elections.

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Factsheets

Political factsheet

Country	Political system	Head of State	Crown Prince / Heir Apparent	Legislature	Head of Government	Pro-government their orientation	Opposition	Notes
Bahrain	Constitutional Monarchy	King Hamad ibn Isa Al Khalifah	Shaikh Salman ibn Hamad bin Isa Al Khalifa	Bicameral: Chamber of Deputies (elected lower house) - 40 seats and Shura Council (appointed by king, upper house)	Sheikh Khalifah ibn Sulman Al Khalifah	Islamist Al-Menbar Islamic Society (Sunni) (7/40); al -Asala (8/40); Future Bloc (4/40); Economists Bloc (0); Independent (3/40)	Al-Wefaq National Islamic Society (17/40); National Democratic Action (Wa'ad) (1/40); National Unity Bloc (ex - Communist) (0)	Latest parliamentary elections in 2006 saw significant gains by Sunni and Shiite Islamists and defeat of nationalists, leftists and liberals.
Kuwait	Constitutional Hereditary Emirates	Sheikh Sabah Al-Ahmad Al - Jaber Al - Sabah	Sheikh Nawaf Al - Ahmad Al - Jaber Al - Sabah	Single chamber Majlis Al Umma (National Assembly). 50 elected members and a maximum of 16 government ministers appointed by the Emir	Sheikh Nasser Al - Mohammed Al - Ahmed Al - Sabah	Islamic Bloc (Sunni) (21/50); Independants (tribal / strong family connections) (13/50); Liberals and allies (7/50);	Shia / Popular Action Bloc (9/50);	Recognized as the GCC's most vibrant participatory states. Formal political parties are illegal and MP's generally are described as either traditional or liberal. Only about 4% of the population was allowed to vote before 2006 until women and naturalized citizens (those naturalized for over 30 years) were allowed to vote.
Oman	Absolute Monarchy	Sultan Qaboos ibn Said Al Said	<u>None</u>	Elected Majlis As - shu ra (Advisory Council);	Sultan Qaboos ibn Said Al Said	None	None	
Qatar	Absolute Monarchy	Sheikh Hamad bin Khalifa Al Thani	Sheikh Tamim Bin Hamad Al - Thani	unicameral Majlis al-Shura (Advisory Council); 35 appointed members	Sheikh Hamad bin Jassem bin Jabr Al Thani	None	None	Preparations underway to hold first elections since 1970 for two thirds of the Majlis al - Shura
Saudi Arabia	Absolute Monarchy	King Abdullah bin Abdul Aziz	<u>Prince Sultan bin Abdul Aziz</u>	unicameral Majlis al-Shura (Consultative Council); 35 appointed members	King Abdullah bin Abdul Aziz	None	None	Government announcements to hold elections for a third of the members of the Majlis al - Shura have not materialized
United Arab Emirates	Federation of seven emirates / monarchies	Sheikh Khalifa bin Zayed Al Nahyan	Sheikh Mohammed bin Zayed Al Nahyan (CP of Abu Dhabi)	unicameral Federal National Council (appointed 40 members) - reviews laws	Sheikh Mohammed bin Rashid Al Maktoum (Dubai Ruler)	None	None	Federation of 7 emirates (Abu Dhabi, Dubai, Sharjah, Ajman, Umm Al Quwein, Ras Al Khaimah and Fujairah)
Yemen	Parliamentary republic	President Ali Abdullah Saleh	None	Bicameral: Assembly of Representatives (301 elected); Consultative Council (de facto upper chamber) (appointed by president 59 members)	Ali Mohammed Mujur	General People's Congress (Ruling Party) (238/301); Independants (4/301)	Yemeni Congregation for Reform (Sunni Islamist) (46/301); Yemen Socialist Party (8/301); Nasserite Unionist People's Organisation (3/301); Arab Socialist Rebirth (2/301)	Only republic in Arabian peninsula formed as a result of the unification of former South (Socialist) and North (Capitalist) Yemen.

Economic factsheet

Country	Population	Budget Balance (2007)	Inflation y - o - y	Economic growth as percentage of GDP (2007)	Interest Rate	Unemployment	Public debt as percentage of GDP (2007)
Bahrain	718,306	0.60%	3.20%	6.60%	4.75%	15 % *	32.20%
Kuwait	2,596,799	42.40%	5.50%	4.60%	4.25%	2.20%	26.70%
Oman	3,311,640	12% e	6.50%	6.40%	1.70%	15 % +	8.60%
Qatar	928,635	6.40%	13.80%	14.20%	2%	0.70%	57.40%
Saudi Arabia	28,161,417	12.10%	9.60%	4%	5%	13% '	9.20%
United Arab Emirates	5,402,375	30.00%	11.10%	7.40%	1.50%	2.10%	34%
Yemen	23,013,376	-9.50%	12.50%	3.10%	---	35% @	11.60%

* 2005 estimate

+2004 estimate

2003 estimate among Saudi males

@ 2003 estimate

Introduction

Our Regional Risk Watch aggregates and analyses the news, which significantly influences the political risks of the given countries, due to their favourable or unfavourable effects on

- investor environment,
- governmental and political stability in general, and
- welfare reform.

We make forecasts on prospective political tendencies on the basis of the news, and evaluate each news item by its potential of increasing or decreasing political risks of the region or a particular country.

Notation:



Risk increase (decision or event pointing to increasing political or economic instability)



Risk decrease (decision or event pointing to decreasing political or economic instability)

Our newsletter covers the following countries:

- Bahrain
- Kuwait
- Oman
- Qatar
- Saudi Arabia
- United Arab Emirates
- Yemen

Bahrain

Bahrain facing interior budgetary problems in 2009

Item

The Interior Ministry's budget is insufficient to meet vital projects for 2009 and 2010, such as a sea fence, traffic cameras surveillance and the development of civil defence and Coastguards according to the interior minister, Shaikh Rashid bin Abdulla Al Khalifa. He was addressing a meeting between MPs' financial committee and Interior and Defence ministry officials. Shaikh Rashid also called for BD62 million of the current budget to be carried over to the next budget. Minister of State for Defence Dr Shaikh Mohammed bin Abdulla Al Khalifa stressed the ministry's requirements for emergency and catastrophe plan and army readiness.

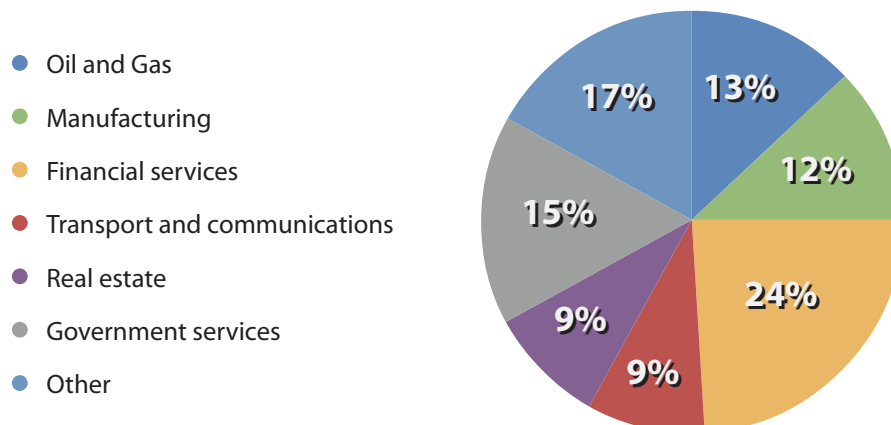
(4th December, 2008)

Analysis
and
forecast



Although oil forms about 13% of Bahrain's GDP, it accounts for about 76% of the government's income. The dramatic rise of the price of oil since 2005 has encouraged Bahrain to embark on ambitious development projects. The "break-even" for the price of oil allowed for in the current Bahraini budget is estimated at US \$ 70 a barrel. As a result of the rapid drop of oil prices, the government has had to review many of its projects. It has to complete projects that have already started. With less income available from oil, the government has to cut down on certain departmental budgets, such as the interior ministry's. The grievance of the Bahraini interior minister, who is a member of the royal family, demonstrates the serious problem facing the country. In order for Bahrain to fulfill its budgetary obligations and continue with the projects and plans it started in the past several years without cutting down on spending such as in the interior sector, it may need to apply for additional assistance from Saudi Arabia, which already provides financial assistance to Bahrain. However, with this budgetary cutting down, it is feared that developmental projects that were planned for the poorer Shiite community may not be realized or delayed and therefore lead to further tensions between the Shiite and Sunni communities.

GDP of Bahrain (2007 estimate)



Kuwait

Emir accepts government resignation and asks PM to reform government

Item

The Emir of Kuwait has accepted the resignation of the government and he plans to ask outgoing Prime Minister Sheikh Nasser Mohammad Al-Ahmad Al-Sabah to form a new Cabinet.

The speaker also announced that the next scheduled Assembly session on December 16 has been called off because the government has resigned and that there will be no sessions until the new government is formed.

Assembly sources meanwhile ruled out any session to be held before the first Arab economic summit on January 19-20, which means the parliament will remain suspended for about two months.

Sheikh Nasser submitted his government's resignation to the Amir last Tuesday after the government walked out of the Assembly session that was scheduled to set a date for debating a grilling of the prime minister. The Cabinet claimed that it could not cooperate with the National Assembly.

Since his appointment to the post in early February 2006, Sheikh Nasser has formed four governments and has so far resigned four times, two of them resulting in the dissolution of the Assembly and fresh elections in 2006 and this year. Sheikh Nasser also made a number of Cabinet reshuffles, including two key reshuffles after MPs protested or grilled certain ministers in his Cabinets.

The new government is not likely to be formed soon, with some sources saying that it could take as long as two months and not before the Arab economic summit.

(1st December, 2008)

Analysis and forecast



The move by the Emir to ask Sheikh Nasser, who is also a senior member of the ruling family, to form his fourth government reflects that the Emir has no choice but to re-appoint Sheikh Nasser in order to avoid any potential problems within the ruling family. The implications here is that the Emir thinks that tensions within the ruling family would have far more serious repercussions on the country than tensions between the government and parliament. The timing of the move - almost 2 weeks to accept the prime-minister's resignation, has effectively resulted in the suspension of parliament for at least 2 months. By then, it is hoped that easing economic pressure and talks between the parliamentary opposition and government would result in a truce between them. While the move by the Emir is seen as delaying a potential crisis, the immediate risk of another dissolution of parliament and suspension of the constitution has been averted, at least in the short-term.

Opposition question \$7.5 bn Dow Chemicals deal

Item

Opposition MPs called on the government to cancel a US \$7.5-billion deal Kuwait signed with US petrochemicals giant Dow Chemicals. Officials from the state-owned Petrochemicals Industries Co (PIC) a few days ago signed the deal with Dow in London. The deal stipulates that PIC pays \$7.5 billion to become a 50-percent holder of assets held by the US firm. The initial amount was \$9.5 billion.

MP Faisal Al-Muslim called on Prime Minister Sheikh Nasser Mohammad Al-Ahmad Al-Sabah to cancel the deal because of "ambiguities surrounding the project" and sue over the huge amount involved. Muslim wondered why the deal was sanctioned by the Supreme Petroleum Council, headed by the premier, on the eve of the debate on his grilling which resulted in the government walking out of the session.

He questioned the Council's "hasty" approval of the deal despite the unclear domestic political situations and amid the global financial turmoil which is unpredictable and has changed the economic landscape. Muslim also questioned why the SPC asked a delegation to travel to London to sign the deal last week on the same day the government submitted its resignation.

Under the current global economic crisis, countries normally do not invest outside their territories, and under the deal, the main beneficiary is the second party which is Dow, which, like other major companies, are in need of cash to boost their positions in the face of the crisis, he said. Muslim said that what raises questions about the deal is the fact that the amount paid by Kuwait was \$7.5 billion, down from the original amount of \$ 9.5 billion, a reduction of 20 percent against a drop of more than 60 percent in oil prices.

Muslim said that he will send a number of questions about the Dow deal which could result in another crisis between the Assembly and the government. Meanwhile, MP Musallam Al-Barrak said he would investigate the Dow deal and if he finds anything suspicious about it, he will raise the issue in the National Assembly.

(4th December, 2008)

Analysis and forecast



The circumstances and rapidity of closing the Dow deal on the eve of the resignation of the government has raised many eyebrows as to why the deal was signed. There has been intense speculation in Kuwait about under table financial dealings behind the deal and the manner in which it was signed only strengthens this view. Now that the opposition have taken this to parliament, it is likely that the prime-minister Sheikh Nasser, who has been asked to form a new government, will face serious questioning when parliament reconvenes in the New Year. While the previous crisis between the government and parliament were averted, it seems that this deal could result in further tensions between the two, prompting the Emir to dissolve parliament early in the new year. The Emir is more likely to dissolve parliament than replace Sheikh Nasser as prime-minister to avoid further tensions within the two branches of the royal family, of which Sheikh Nasser is a senior member. In either case, it is likely that there will be further political turmoil as a result of this deal.

United Arab Emirates

Nakheel axes over 500 jobs and cuts back on major projects

Item

Nakheel, the government-owned developer of Dubai's man-made palm islands, has cut 500 jobs, or 15 per cent of its workforce, as it scales back projects amid the global financial crisis. Some sources have indicated that job cuts in Nakheel were over 1500, but only admitted to 500.

Nakheel said that there had been a slowdown in the rate of property sales. As a result it scaled back dredging work on its massive Palm Deira project, the largest of three palm-shaped islands, which was planned to house one million people. It has also decided not to build the "Universe", a fourth man-made island and has stopped developing parts of the Palm Island Jebel Ali and Dubai Waterfront.

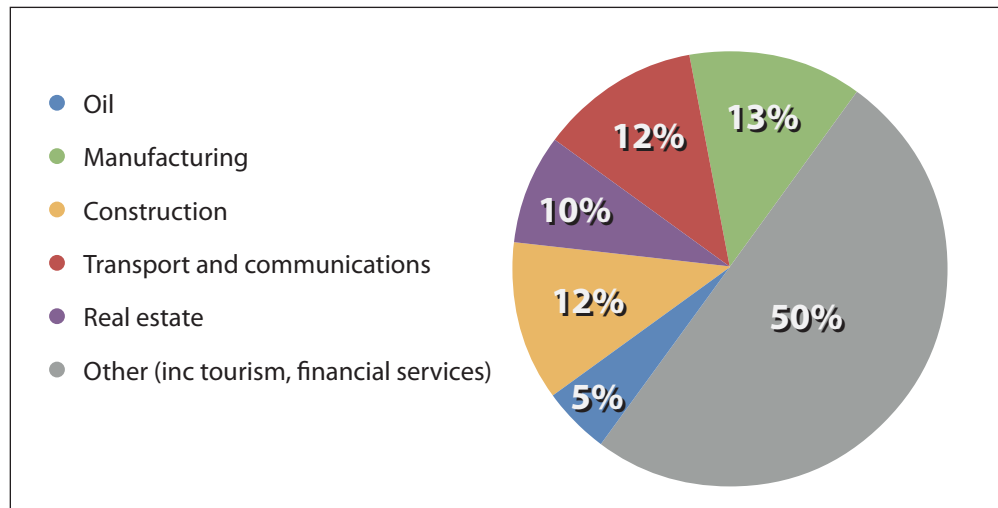
(1st December, 2008)

Analysis and forecast



The move by government-owned Nakheel both to cut down its work-force and cancel or delay major projects is an admission by the government of the seriousness of the economic situation facing Dubai. While other major private developers like Emaar and Damac have previously cut back on their workforce and projects, the move by Nakheel is the most serious as Nakheel is wholly government-owned. Redundancies are also something that Dubai has not seen in the past and for the government to make such a move indicates that short to medium-term plans for rapid-delivery development of Dubai have come to a halt.

As Dubai's recent economic boom relied heavily on developments in the construction and real-estate sectors, the move could mean that Dubai may increasingly look for assistance from oil-rich Abu Dhabi in order to survive the crisis.



The above figure shows the make-up of the Dubai economy in 2007. While only 22% is directly due to real-estate and construction, a higher proportion of the other sectors of the economy are dependent on the construction and real-estate sectors. Estimates put the indirect contribution of the construction and real-estate to the Dubai economy at over 65%.

Reasons include factors such as

1. The majority of the Dubai population are expatriates working in the construction industry;
2. A significant proportion of the activities of the financial sector is related to financing of real estate developments and to serving workers in the construction and real-estate industry;
3. A significant proportion of the visitors contributing to tourism are businesspeople or professionals working in construction and real-estate.

UAE rejects UN calls to legalize trade unions

Item

The United Arab Emirates has rejected international calls to allow trade unions to represent migrant workers. The rejection followed a United Nations review of the country's record on human rights. Under the Universal Periodic Review, the rights record of all 192 UN member states are examined every four years.

A draft report highlights the UAE's political and cultural red lines as its government seeks to improve its international image in the face of criticism of the treatment of workers and women.

Officials in the UAE, as in other Gulf states where foreign residents outnumber the native population, are wary of the political ramifications of organised labour. After completing a peer review by states at the UN Human Rights Council in Geneva, UAE Minister of State for Foreign Affairs Anwar Gargash, who also headed the UAE's delegation to Geneva, pledged to consider setting up a national human rights body. The UAE rejected about 20 suggestions on how to improve its human rights record, including calls to legalise political parties, introduce rights to collective bargaining and unions and abolish the death penalty and discrimination on the basis of gender and sexual orientation. The UAE official news agency noted that some were rejected on the grounds of "legal, social and cultural contradictions".

The country agreed to 37 recommendations, including the reform of a 1980 press law to enshrine freedom of expression and the introduction of a law to protect children's rights. It pledged to consider 17 other measures before the report is ratified at the Human Rights Council in March. The country will consider allowing UAE women who marry non-nationals to pass on their nationality to their children, as its men can; introducing freedom of assembly; and signing up to the UN Convention against Torture.

(10th December, 2008)

Analysis and forecast



The UAE has been heavily promoting its presentation to the UN which accompanied the 4 year UN review of the country's human rights. The UAE's delegation to Geneva included 25 members and received widespread local coverage. The UAE was hoping that the review of its human rights record would be more positive.

The UAE is one of the GCC's most undemocratic countries and the recommendations by the UN body on ways to improve the human rights situation puts pressure on the UAE to improve on this front. The UAE government has agreed to adopt some of the proposals but chose to reject the more serious ones, including the setting up of trade unions. The labour rights in the UAE have been heavily criticized in the past and the UAE has seen widespread strikes and demonstrations by expatriate workers earlier in 2008, who call for fairer treatment. Expatriates form over 80% of the UAE's work-force.

If the UAE agreed to accept the UN's recommendation to set up trade unions, they would provide a platform for expatriate workers to express their grievances. However, with this rejection the UAE government potentially puts itself under pressure on two fronts. The first is from the international community and the second from workers in the UAE who will more likely resort to violent means when they have demands, as was seen earlier in 2008. The announcement that the UAE will set up a human rights watchdog is unlikely to have much impact as it will most likely be controlled by the government.

Yemen

President threatens “extreme measures” against opposition

Item

In a speech given on Yemen’s independence day, President Saleh threatened to take “any measure” against those “causing unrest in the country”, calling them “traitors and conspirators”, in reference to the opposition.

Saleh added: “Here I stand in front of you all to warn those who think they can climb on board a tank and pave their way to power, that they can forget about it as we will resort to any measure until we prevail”.

He stressed the importance of dialogue between political parties without referring to violence, and said that Yemeni unity shouldn’t be bargaining topic.

He called for “...civilized dialogue, except on the issue of the national unity which is a fundamental principle where there would be no compromise”.

(4th December, 2008)

Analysis and forecast



The fiery speech by the Yemeni president - who has been in power for 30 years, was a clear and strong reference to the opposition’s attempt to postpone the Spring 2009 parliamentary elections. The ruling party hopes the elections would bring unity to the country, which on many occasions has been threatened. With the latest speech by Saleh, the ruling party has raised the stakes and will be more unlikely to cancel the elections. Officials from the ruling party reject the notion of a postponement claiming that it would mean loss of the party’s legitimacy and credibility among its supporters. Opposition leaders have raised a number of issues about the fairness of the elections, including problems with voter registration and electoral committees.

If the elections are held, it is likely that there were be an increased frequency in riots and demonstrations, particularly in the former south, with clashed expected around voting centres.

It is more likely that more fiery speeches will be given by both sides, leading to further street unrest.

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